Memorandum on Waste and Surplus in the Economy of the United States

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Part I

Total Surplus in the Economy

Phillips in the appendix to Baran and Sweezy Monopoly Capital, estimated an economic surplus (defined as property income plus waste in the business process, plus total government receipts at all levels) of $327.7 billion in 1963 (56.1% of the GNP). Below are the components, using 1963 figures:

	($=billions)
Total business profits, including depreciation, adjusted	$66.5
Rental Income of persons	5.4
Net Interest	24.4
Profit element in compensation of corporate officers	8.3
Total property income	$104.6
Waste in distribution	29.7
Corporate advertising other than by trade components	7.7
Surplus employee compensation (finance, insurance, real estate and legal services)	17.6
Total waste in the business process	55.0
Total surplus absorbed by government spending	168.0
	$327.7

According to Phillip's data the surplus as a percentage of the GNP has been relatively steadily rising since World War II (government spending, which was roughly half the surplus in 1963, has surely been doing that—in 1963 total government receipts were 28.6% of GNP and in 1973 they were 32.5%.)

Below then are estimates of the surplus in 1972 and 1973 figures assuming
it to be 56% and also 60% of the GNP:

	$ billion	
	1972	1973 (all 1973 national income data used in this memo is
56%	$646.9	$721.4 preliminary)
60%	$693.1	$772.9

Stanfield arrived at a different measure of the total surplus from
another direction. He first calculated total essential consumption--
personal, social, and capital. (Personal consumption is measured by the
BLS "modest but adequate" urban family budget, social consumption is
considered to be necessary public goods and services, and capital
consumption is adjusted depreciation.) This can then be compared to GNP
to get a measure of the surplus. For 1970 with a GNP of $974.1 billion,
total essential consumption was $554.3 billion and the surplus $419.8
billion or 43.1% (note Stanfield's surplus does not include capital
consumption or certain government expenditures, as does Philips' measure--
they are instead considered as part of necessary consumption, a more realistic
assumption). Updating this yields a surplus of $497.9 billion in 1972
and $555.2 billion in 1973.

In order to try to measure a potential surplus Stanfield adds to
this a calculation of potential GNP (including the loss from unemployment)
which in 1970 would have been $1252.1 billion (only 77.8% of aggregate
economic capacity used that year). This means a potential surplus of
$697.8 billion (55.7%) in 1970. Stanfield calculates a capacity utili-
zation percentage for each year ending in 1970 so I have used an average

estimate of this to calculate potential GNP for 1972 and 1973 and

the 1970 percentage potential surplus (55.7%) in order to update the

potential surplus for those years. The results are a potential surplus

of $804.3 billion in 1972 and $896.9 billion in 1973. But the above

are my calculations from Stanfield's tables because he does not

calculate the surplus this way. Instead he subtracts from both GNP and total

essential consumption certain surplus elements which he says are imbedded

in market prices.*

These factors are for 1970:

		$=billion
Miscellaneous government revenue		$138.8
Indirect business taxes and non-taxes		92.9
Nonpayroll personal taxes and non-taxes		16.3
Employer social insurance contributions		29.6
Corporate profits, capital consumption and 25% of the income of unincorporated enterprises		175.1
Net business interest		33.0
Personal rental income		23.3
Surplus wages and salaries		39.8
Total surpluse elements		$410.0

This $410.0 billion is 42.1% of GNP. After GNP and total essential

consumption are adjusted and using 1958 dollars instead of current ones

Stanfield derives surplus percentages similar to those above, before

the adjustments--a surplus of 46.9% and a potential surplus of 58.7%--

although the numbers of course are much lower.

*I don't understand his reasoning for this. To do so requires a careful

study of his whole book and I have not had time to do that.

$ billion 1970

Actual GNP	Actual Surplus	Potential GNP	Potential Surplus
446.4	209.2	573.8	336.6

The Income Distribution

Below are two measures of the income distribution, the first--for families only is the one almost always shown:

1972 Families Only

Quintiles	Income Boundaries	Median Income	Total Income (billions)	Income Share
lowest fifth	under $5,612	$3,409	$37.1	5.4
second fifth	5,612 - 9299	7,512	81.7	11.9
third fifth	9300 - 12854	11,046	120.1	17.5
fourth fifth	12,855 - 17759	15,086	164.1	23.9
highest fifth	17,760 and over	26,133	284.2	41.4
top 5%	27,837 and over	40,142	109.1	15.9

The following includes families and individuals. They are my calculations--they are not published anywhere to my knowledge--so they should be checked.

1972 Families and Unrelated Individuals

Quintiles	Income Boundaries	Median Income	Total Income (billions)	Income Share
lowest fifth	under $3,679	$2,114	$30.1	3.9
second fifth	3,679 - 7,345	5,463	77.8	10.1
third fifth	7,346 - 11,370	9,230	131.4	17.0
fourth fifth	11,371 - 17,253	13,653	194.4	25.1
highest fifth	17,254 and over	23,831	339.3	43.9

Including individuals in the income distribution increases the ratio between the top fifth and bottom fifth from 7.7 to 1 to 11.3 to 1. If just 10% of the income of the top fifth were taxed away $28.4 billion would be provided if only families were counted and $33.9 billion if both families and individuals were included. If the "excess" share of the top fifth were taxed away you would get $146.9 billion (21.9% more than their 20% share) counting families and $184.7 billion (23.9% excess) counting both.

Also the total income of 772.9 billion including both families and individuals reported for 1972 by the annual CPS survey does not include $166 billion counted by the Bureau of Economic Analysis in its total personal income of $939 billion (about $85 billion is income unreported in the CPS survey and another $81 billion is imputed by the BEA in addition to Census' income definition). There is no short, accurate way to apportion this extra income to the quintiles in the distribution. Of the $85 billion unreported a good share of it went to the top quintile, although the bottom fifth probably also increased its share some because of transfer payments received and not reported as income—probably the shares of the middle three quintiles declined some. Most of the $81 billion imputed income probably went to the top fifth since much of it consisted of income retained by institutions but spent on the behalf of individuals and imputed rental and interest income of individuals. Thus if the share of the top quintile of families and individuals rose only to 45% from 43.9% they would receive $422.6 billion of the $939 billion total personal income. Taxing 10% would yield $42.3 billion. Taxing their excess 25% share would yield $234.8 billion.

Income Tax Loopholes

Peckman and Okner testified in 1972 before the Joint Economic Committee that if present tax rates were applied to a comprehensive income base, i.e. with most preferences and deductions eliminated, the Treasury

would collect $77.3 billion more in personal income taxes. This figure
includes leaving largely intact present deductions for medical expenses,
(which the Ways and Means Committee is presently considering reducing)
charitable contributions, mortgage interest and state income taxes plus retention
of the personal exemption and a flat $1300 standard deduction (low income
allowance). If the latter two were removed the tax base would be further
increased by $178.6 billion, and taxes by perhaps $40 - 50 billion. Also
the $77.3 billion does not include revenue losses from the marginal rates
and the interest costs of the taxes deferred between gain and realization.
Updating the amount can only be done roughly. Assuming Peckman and Okner
were using 1971 tax data the $77.3 billion represents 89.7% of the $86.2 billion
individual income taxes collected that year. Assuming no change in tax laws
and using the same percentage yields tax loopholes of approximately $84.9
billion in 1972 and $92.6 billion in 1973, based on tax collections of
$94.7 billion and $103.2 billion respectively.

Beverly Moore lists a few specific deductions thought to benefit
most taxpayers but of which a disproportionate share goes to the wealthy:
1) the personal exemption and standard deduction reduce taxes of an individual
with a $3000 income by $287 but if your income is over $100,000 your taxes
decline by $1,925; 2) medical deductions--in 1970 the average tax benefits
for those with an income of $10,000 - 15,000 was $33, while those with incomes
over $100,000 averaged $499 in benefits; 3) mortgage interest deductions--
in 1970 the average benefit to those with $10,000 - 15,000 incomes was $51,
but with income over $100,000 the average benefit was $411.

Shifting of the Corporation Income Tax to the Consumer

Economists disagree widely on the percentage of the tax shifted
to consumers--some say nothing and others including Musgrave say more than
100% in some specific instances. Corporations paid $32.1 billion in taxes
in 1972 and $36.1 billion in 1973, some or most of which simply became
higher prices to consumers due to various monopoly elements   which allowed
the corporations to pass the tax on.

The Distribution of Wealth

James Smith, Penn State University, made an estimate of private
wealth which Beverly Moore said was an "unpublished projection" based on
"earlier data contained in Smith (1972)" (1962 is the most recent year of a
published government study). The estimate of private net wealth was about
$3.7 trillion and since it is only private wealth it excludes that owned by
the government, foundations, and religious and educational institutions.
The top 5% of wealth holders owned 53% of the private wealth. This means
that if they owned only 20%--as the top 5% of income recipients get almost 20%
of the income--there would be $1.2 trillion freed for the remaining 95% of
the population. If a progressive wealth tax averaging only 3.75% were applied
to this $1.2 trillion, $45 billion could be raised. And if private wealth
were completely equally owned, the top 5% would give up $1.8 trillion to the
other 95%.

GNP Losses Due to:

Unemployment

1) Using "Okun's Law" (1% excess unemployment = 3% GNP loss),
and assuming 4% unemployment is "full employment", the GNP loss was:

	$ billion	
	1972	1973
GNP	$1,115.2	$1,288.2
Unemployment rate for the year	5.6%	4.9%
Excess unemployment	1.6%	0.9%
GNP loss	$55.5	$34.7

2) each year's loss has a cumulative effect--the following year's GNP will be lower than maximum output even if full employment is reached because of the lost resources of the previous year. This is illustrated by Keyserling's estimate of $700 billion cumulative GNP loss due to excess unemployment between 1953 and 1966 in 1965 prices. According to my calculations approximately $300 billion of that is the result of cumulation and the other $400 billion is yearly GNP unemployment loss. Note: Keyserling used approximately 3% unemployment as "full employment" and considered his estimate to be conservative--it is only the minimum growth needed to maintain full employment, not a measure of the full ability of the economy to expand.

Phillips in the appendix to _Monopoly Capital_ includes the Conference on Economic Progress' estimate of output loss of $262 billion due to unemployment for the years 1953 - 60 in 1959 prices. It should be noted that unemployment from 1960 - 66 (the second half of Keyserling's estimate) averaged 0.4% greater per year than during 1953 - 60 so their estimate would rise rapidly (it is also cumulative) during that time to approach Keyserling's $700 billion estimate. It is also probably true that they used a measure of full employment of more than the approximately 3% Keyserling used, which would lower their estimate of loss.

Also Daniel Fusfield estimated a GNP. loss of $650 billion between 1946 and 1970 based on 3% unemployment as the measure of "full employment" in 1958 prices (note the different base price year than Keyserling used, although it appears Fusfield's estimate would still be lower than Keyserling's even if they used the same base price year).

3) as a <u>subcategory</u>, federal tax revenue loss due to unemployment. Roughly $19 billion in 1972 and $11 billion in 1973 in federal tax revenue was lost due to unemployment (based on a $12 billion loss for each 1% of excess unemployment according to a Joint Economic Committee estimate).

<u>Subemployment</u>

William Spring estimates a national subemployment rate (unemployed + part timers wanting full time work + discouraged workers not counted as unemployed + full time workers earning less than some minimum amount) in 1970 of 16.9% based on $2.00 per hour earnings to roughly reflect the Census' poverty income definition, compared to an unemployment rate of 4.9%. Bennett Harrison estimates a subemployment rate in 1967 of 18.3% based on $1.68 per hour (a little more careful calculation), compared to a 3.8% unemployment rate for that year. Using the BLS minimum family budget instead of the poverty level as a minimum income, Spring calculates a subemployment index of 35.1% for 1970, based on $3.50 per hour, and Harrison 33% for 1967, based on $2.65 per hour. (I am unsure how these national subemployment estimates were calculated since they were based on Labor Department studies of specific urban areas, not national samples, and to my knowledge no national data exists on all four factors that comprise the subemployment rate. Harrison and Spring will be contacted. In any case what we need is an "Okun's law" for the subemployment rate in order to calculate the GNP loss associated with it. The work time lost of both discouraged workers and involuntary part timers can be

added directly to the GNP loss (although 1% of the latter would add less because they now produce something), but what to add, if anything because of low pay is a difficult question. We can perhaps do this once we get a breakdown of the subemployment rate into its four components.)

Output Loss Due to Monopoly--Various Estimates

1) Harberger (1954) and Swartzman (1960) both estimate a GNP loss of less than 0.1% due to monopoly.

2) Scherer (1970) estimated a 1.05% output loss.

3) Shepherd (1970) estimated 2.5%

4) Kamerschen (1966) estimated 6%

Each had some differences in their definitions and what they included as losses. For 1972 and 1973 the GNP losses in dollar amounts are:

| | | $ billion |
% loss	1972	1973
0.1	1.2	1.3
1.05	12.1	13.5
2.5	28.9	32.2
6.0	69.3	77.3

Monopoly Profits as a % of GNP

1) Moore estimates $25 billion monopoly profits and excessive executive benefits, I think based on 1971 data or 2.37% of GNP.

2) F. Scherer (1970) estimates monopoly profits to be 3% of GNP.

3) Senator Hart (1970) said monopoly pricing costs consumers about $45 billion a year--1969 data?--if so, 4.84%.

Using the above percentages the dollar amounts for 1972 and 1973 would be:

$ billion

% of GNP	1972	1973
2.37	27.4	30.5
3.00	34.7	38.6
4.84	55.9	62.3

Additional note: Scanlon (1972) said internal FTC data showed a $15 billion overcharge in 100 manufacturing industries alone (no definition of industry given) due to monopoly profits and internal inefficiency.

Next there are wide ranging estimates by Moore of various monopoly related wastes that represent the top figure in combining the above two categories. I believe they are based on 1971 data. (This is from my memo, Comments and Questions You Had About My Surplus and Waste Memo)

	$ billion	
Monopoly Profits, Excessive Executive Benefits	25.0	
Utility Overcharges	1.5	
Waste in: ICC		6.5
CAB		3.0
FMC		2.5
Total Regulatory Waste	12.0	
Internal Inefficiency from Lack of Competition	25.0	
Excess Capacity due to Cartelization or Regulatory Protectionism	6.6	
Basing Point Cross Hauling and Distorted Locational Decisions	2.2	
Less than Efficient Scale of Operations due to Protectionism and Wasteful Practices	3.3	
Advertising, Packaging, Promotions		13.0
Less Cost of Consumer Information Systems		(4.0)
Advertising Waste	9.0	
Welfare Loss From Resource Misallocation	40.0	
Manipulation of Consumer Preferences	25.0	
Consumer Fraud	20.0	
	$169.6	

Each of the above can be a distinct, and additional, loss due to monopoly, although they can overlap and they are extremely difficult to measure, as Moore admits. Using the $169.6 billion estimate means it is 16.07% of GNP in 1971, considerably higher than the other estimates. Although I haven't examined the content of the other estimates, I think Moore's is much higher basically because he includes a lot they don't. Updating Moore's data to 1972 and 1973 yields $185.6 billion and $207.0 billion respectively.

Finally there are estimates of Ralph Nader and Senator Hart as to the overall impact on consumer spending of monopoly "in all its various forms", i.e. the part of the consumption dollar that buys no product value. Nader has estimated that monopoly elements cost consumers 20% of their spending and Senator Hart estimated 30% - 40% (or $174 - 231 billion when he made the statement in 1970). The updates would be:

		$ billion	
%		1972	1973
20		$145.3	$161.0
30		218.0	241.5
40		290.6	322.0